METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

I. Cost Finding

A. Cost reports reflecting costs on the basis of generally accepted accounting principles will be submitted for each facility at least annually.

==04/98 B. Reports will be submitted on uniform cost reporting forms developed by the ~~Illinois~~ Department of Public Aid (DPA)

C. Reporting Periods.

==04/98 1. The cost report will cover the facility's fiscal year or other period agreed to by ~~the Department of Public Aid~~ DPA.

2. In the case of a change in ownership, the new owner or lessee must file a cost report nine months after acquisition (covering the first six months of operation). A change of ownership is dated from the closing of the sale or from the date of the oldest lease agreement between the present incumbents of a lease. The facility must also file a cost report within 90 days of the close of its first complete fiscal year.

a. A change of corporate stock ownership does not constitute a change in ownership.

==04/98 b. ~~The Department~~ DPA will not recognize any subsequent transaction by the lessee as a new acquisition for purposes of capital reimbursement. Capital costs are allowed only when a facility is constructed, sold or leased for the first time. ~~The Department~~ DPA will recognize the one lease as a new acquisition.

3. New Facility - A facility which is licensed for the first time must file a projection of capital costs before any warrants will be released to the facility. A full cost report must be filed within nine months after opening the facility (covering at least the first six months of operation). The facility must also file a cost report within 90 days of the close of its first complete fiscal year.

01/94 a. New facilities which are assigned median rates will have rates recalculated based upon receipt of their first cost report and first Inspection of Care survey.

b. Notwithstanding the provisions set forth for reimbursement of long term care services, effective January 18, 1994, reimbursement rates for new nursing facilities and ICF/MR facilities will remain at the recalculated rate.

07/97

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

D. Cost reports are due within 90 days after the close of the reporting period. One extension up to 30 days may be granted for circumstances which will not allow a cost report to be properly completed before the due date of the report. No public funds shall be expended for the maintenance of any resident in a long term care facility which has failed to file the cost report.

E. All facilities are required to complete the cost reports using the accrual method of accounting. Exceptions may be made for governmental institutions operated on a cash method of accounting.

F. Facilities are required to retain sufficient records to support and verify the cost reports for a minimum of three years following submission of the cost report, and to make such information available to both State and Federal staff upon request.

==04/98 G. ~~The Department of Public Aid~~ DPA will retain all cost reports for a minimum of three years after receipt.

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

II. Allowable Costs

A. Allowable costs include reasonable costs of meeting licensure and certification requirements including the provision of services required by licensing standards. Allowable costs shall include the reasonable cost of all items of expense which providers incur in the provision of routine services.

==04/98 B. Other items as indicated by ~~the Department of Public Aid~~ DPA may be identified as non-allowable, but shall not include any item specified in A. of this section.

C. All related organizations doing business with the facility, and the specific transactions, must be identified on the cost report. Allowable costs of purchases of any item or service from a related organization are restricted to the costs allowed by Medicare guidelines as specified in the Health Insurance Manual 15.

==04/98 D. For county-owned nursing facilities, rates shall include allowable costs incurred in excess of the reimbursable costs. Costs in excess of reimbursable costs shall be verified from the signed annual cost report submitted by the county to ~~the Department~~ DPA.

==04/98 Payment by ~~the Department~~ DPA for long term care services shall not exceed reimbursable costs less what is contributed by third party liability.

E. Costs not related to patient care, as well as costs in excess of those required for the efficient and economical delivery of care, will be disallowed. Examples of non-allowable costs are:

1. Any service not related to direct nursing care such as day care, other out-patient care, non-patient meals, and non-patient laundry.

2. Any revenue producing amenities such as the gift and coffee shop, barber and beauty shop, and television and radio in the resident's room.

==04/98 3. Any services which ~~the Department~~ DPA pays for separately such as laboratory, radiology, and dental services.

4. Costs of items sold to patients or non-patients and the cost of any non-group care restricted drugs.

5. Any expenses incurred by the owner or owning corporation which are not nursing care related. Such expenses would include the following:

a. Non-working officer's salary
b. Compensation to non-working owners
c. Non-care related interest

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

d. Non-care related owners' transactions
e. Personal expenses of owner
f. Non-care related fees
g. Training program for non-employess
h. Fines and penalties
i. Entertainment
j. Contributions
k. Owner of key-man life insurance
l. Special legal fees
m. Non-care related patient transportation
n. Malpractice insurance for individuals
o. Non-patient related transportation and travel
p. Bad debts

6. Owners compensation in excess of compensation in comparable situtations.

7. Non-straight line depreciation or depreciation in excess of Medicare guidelines.

8. Unnecessary interest expense as determined by HLM-15 guidelines.

9. Expenses incurred in transactions with related organizations above the cost of the organization providing those services as specified in HLM-15.

10. In determining allowable costs, no interest cost shall be recognized to the extent that it exceeds payment based on 125% of the prevailing mortgage rate at the time of the loan.

==04/98 11. Assessment fees required by Public Act 87-861 or Public Act 88-0088 to be paid to ~~the Department of Public aid~~ DPA are not allowable costs for reimbursement purposes.

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

04/94 F. Bad debts of non-Title XIX Program patients, and charity and courtesy allowances, will not be included in allowable costs.

04/94 G. Expenditures attributable to the negotiation or settlement of the sale or purchase of any capital assets (including legal fees, accounting and administrative costs, travel costs, and the cost of feasibility studies) shall not be considered to be allowable cost.

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

III. Rate Determination

A. Components of Reimbursement

04/94 The reimbursement rate for long term care services shall be the sum of the reimbursable costs of capital, support, and nursing and will include the following two major components:

==04/98 1. Operating costs are further divided into the following:

~~Operating costs are further divided into the following:~~

a. Support costs - which include laundry, dietary, housekeeping, utilities, and administrative expenses.

b. Nursing costs - which include nurses salaries, and related benefits and payroll taxes and those portions of laundry and dietary specifically related to patient classification, utilization review expenses, and the costs of nursing, activity and related programs.

07/96 c. Therapy costs - which include the salaries for certified speech-language pathologist/audiologist, speech-language pathologist/audiologist completing a one year clinical fellow, registered occupational therapist/licensed, certified occupational therapy assistants, physical therapist, and physical therapist assistant. Salaries for therapist will be based on the applicable geographic area average wage rate.

2. Capital costs include the value of the building and fixed equipment, working capital, owned and rented equipment, vehicles, interest charges, depreciation and property taxes.

B. Desk Review

1. Rates calculated for the rate year beginning July 1, 1990, and for subsequent years thereafter, shall be based on the facility's cost report for the facility's full fiscal year ending at any point in time during the previous calendar year as long as that cost report is filed prior to April 1. Otherwise, the latest cost report available on March 31 will be used to set rates for July 1. Exceptions will be made in the cases of changes in ownership and other unusual cases.

==04/98 2. Nonallowable costs per ~~II. D.~~ subsection II.E., will be adjusted out of the cost report.

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

3. Cost adjustments will be made to disallow costs attributable to excess capacity. The occupancy standard to be used in such adjustment is set as a level which minimizes excess capacity, but is attainable without adversely affecting accessibility of care. The median occupancy rate for the State as a whole in 1977, as represented on the State's cost reports was 93% and will be used as the occupancy standard. Facilities having utilization levels below the standard will have their per patient day costs adjusted as if the occupancy were at the standard. For operating costs, a standard of actual or actual plus one-third of the difference between the actual occupancy and 93% if the occupancy rate is below 93%. The one-third factor was calculated from the actual impact of occupancy on cost.

07/96 4. All cost reports will be grouped by geographic area (This group was determined after extensive analysis of wage rates which showed that no other geographic grouping factor explained more of the variance in wage rates, and hence facility costs. Some geographic areas will be grouped together where it has been found that costs are similar).

C. Operating Costs

1. General

==04/98 ~~a. Notwithstanding any other provisions of this section, there will be no rate update during calendar year 1983 and the first six months of calendar year 1984.~~

07/96 a. The per diem rate for operating reimbursement, excluding direct therapy cost, will be set prospectively and paid on a class basis. Direct therapy cost will be set retrospectively and paid on a class basis in two annual lump sum payments. The class groupings are determined based on geographic area area (some geographic areas will be grouped together where it has been found that costs are similar). There will, however, be a separate group for state-operated MR facilities.

b. The reported, allowable operating costs will be updated on a facility by facility basis for inflation experienced since this cost report was filed and for inflation anticipated during the rate year, in accordance with the method described below.

i. General Service costs (mostly by hotel costs -- food, dietary, laundry, utilities, maintenance) will be updated by a weighted average of the DRI index and the CPI for urban food and beverages and the DRI forecast for food and feed. Utilities will be updated by the DRI Implicit Price Deflator Consumer Expenditures for fuel, oil, coal, electricity, natural gas, urban water, and sewage maintenance. Supplies will be updated by the Chase Implicit Price Deflator,

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

Consumer Expeditures for household operations, services and other from the mid-point of the reporting period to the mid-point of the anticipated rate year. Dietary, housekeeping and laundry costs (salaries, as supplies are adjusted out) will be updated by the DRI average hourly earnings, production workers for nursing and personal care facilities for the United States experienced and projected, adjusted to the Illinois experience as follows:

(A) The rate of wage inflation for Illinois nursing homes from the calendar years 1977 through the most current reporting period will be determined for dietary, housekeeping, and laundry personnel. This rate of inflation, however, will be adjusted to exclude any changes caused by minimum wages over and above the underlying rate of inflation. The impact of the minimum wage will continue to be calculated separately as specified in d. below.

(B) The rate of wage inflation as calculated in (A) above will be compared to the experienced wage rate other increase for the same period.

(C) The resultant factor will become an adjuster which is applied to DRI average hourly earnings, production workers for nursing and personal care facilities for the United States from the year of the cost report to the rate year.

tate Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

10/80 Each of the components will be weighed for their contribution to total General Service Costs to form a General Services Inflation index.

Projected producer price index, gas and electricity indexes, household operations index and wage rate other will be based on generally accepted national economic forecasts, such as Chase Econometrics.

07/91 ii. Nursing and program costs (mostly salary costs for direct care staff, but also including some supplies, such as supplies used in activity programs, nursing supplies, i.e., adhesive tape, dressings, gauze, thermometers, etc., and supplies incidental to social services programs, and other related expenses, such as expenses incurred for religious services, will be updated by DRI average hourly earnings production workers for nursing and personal care facilities.

iii. General Administrative costs will be updated by a weighted average of the general service inflator and the nursing and program inflator adjusted to Illinois nursing homes as follows:

(A) Prior to any updating, fringe benefits and payroll taxes will be prorated to General Service and Program areas on the basis of salaries paid in those areas. (The prorated amount will be updated at the same rate as the other portions of those cost centers.)

State Illinois

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES - Reimbursement to Long Term Care Facilities

(B) The average rate of increase for the other two operating cost centers--General Administrative and Program costs--will be calculated. It will be a weighted average based on the relative contribution of each to average nursing home expenditures.

(C) The resulting factor will be used to update General Administrative costs.

iv. The component inflation index will be re-evaluated at the mid-point of the rate year. If the total projected component inflation index differs from the actual total component inflation index by more than 5 percentage points, then an adjustment to the actual inflation experienced will be made in the reimbursement rates. General Services and General Administrative rates will be adjusted prospectively beginning September 1 of the rate year. No adjustment will be made for Nursing and Program costs.

c. In the event of minimum wage increase, it may be necessary to make further adjustments when the legislatively mandated change has an impact greater than the increase in costs projected by use of the above inflation projections. The specific adjustment for this change will be calculated as follows:

==04/98 i. The average nurses' aide salary for each geographic area group will be updated for inflation as specified in ~~c.ii. above~~ subsection III.C.1.b.ii. (some geographic areas will be grouped together where it has been found that costs are similar).

ii. The number will be compared to the new hourly minimum wage figure plus ten cents.

07/96 iii. If the minimum wage plus ten cents is less than the updated average nurses' aide salary, no adjustment will be made. If it exceeds the updated, average nurses' aide salary, the difference between the two will be divided by the updated nurses aid salary. That will yield a percentage shortfall which will be adjusted by the statewide average of nonadministrative salary costs as a percentage of total operating costs and applied as an additional inflation factor to all facilities in that geographic area group (some geographic areas will be grouped together where it has been found that costs are similar).